Uruguay Debt Report

A quarterly report issued by the Debt Management Unit July 2009

Executive

The Central´s Government Debt Management in the period 2004 – 2008 was submitted to Parliament by the Executive Power at the end of June 2009[1]. The main guidelines that drove the financing policy of the Central Government and the results achieved are presented in this report.

At the end of June 2009, the Executive submitted to the Legislative Power the Central´s Government Debt Management in place during 2004-08, as part of the yearly revision of the Budgetary Bill. In this endeavor, in December 2005 the government established by legal decree the Debt Management Unit within the Ministry of Economy and Finance.

Its main is to finance the Central Government at the lowest cost in a medium term perspective, ensuring the maintenance of prudent risk levels. Given these goals, the main guideline of the financial strategy for the period 2005 – 2009 has been the reduction of the roll-over risk. Historical experience shows that these are the main challenge to solve for any sovereign debtor. At the end of 2004, the government faced a high refinancing risk in the short term, as a consequence of the disbursements by multilaterals during the 2002 financial crisis. The amortizations falling due in the next three years amounted to 6.3%, 9.0% and 6.7% of the GDP respectively, of which the majority corresponded to payments due to the IMF. In the medium term, the government faced a considerable roll-over risk in the years 2011 and 2015, where the maturity of bonds issued to the private sector concentrated.

The objective of diminishing the refinancing risk was tackled through liability management operations which aimed at smoothing the debt profile and extending the average time to maturity of the debt. At the same time, a pre-funding policy was put in place, so that the government had at every moment enough liquid assets to cover the financial needs for the next 12 months.

Another important guideline of the financial strategy has been the reduction in the foreign currency (FX) risk. Since in December 2004 nearly 90% of the debt was denominated in foreign currency, basically in US dollars. This goal was achieved through the issuance of local currency bonds (linked to CPI) in the domestic and external market and by contracting liabilities with multilaterals also in local currency. It is worth noting that the existence of a smooth debt profile also contributes to decreasing the FX risk, since it limits the effects of a depreciation of the local currency.

Within this strategy, was also considered the achievement of an optimal mix of debt between multilateral institutions and the private sector.

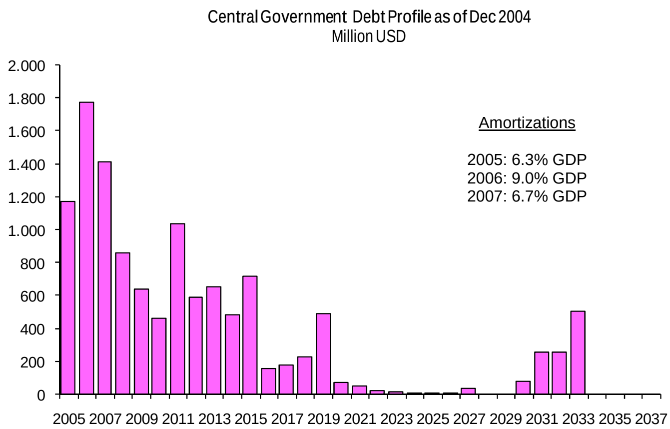
Uruguay took advantage of favorable market conditions in place, issuing in the global markets around 6.5 billion dollars during 2005 – 2008. These operations enabled the prepayment of the whole debt with the IMF in 2006 for an equivalent to 2.6 billion dollars. Since the last quarter of 2008, the government has been able to draw for multilaterals, exercising its contingent financing plan with those institutions for an amount close to one billion dollars.

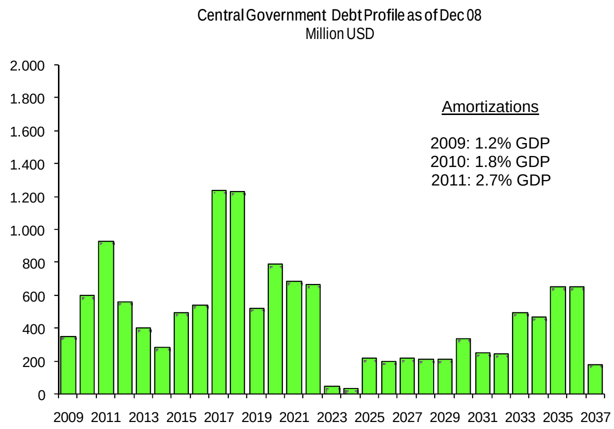
Other guidelines followed by the DMU in this period were: diversification of the funding sources and investment base and the achievement of a more dynamic domestic market.

[1] Uruguay´s Budget Bill is a five year program ("Presupuesto Quinquenal") that is revised on a yearly basis ("Rendición de Cuentas").

Results of the implementation of the Debt Strategy

Central Government´s Risk Indicators	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	II.2009
Roll Over Risk						
Average Time to Maturity (years)	7.4	7.9	12.1	13.6	13.0	12,5
% of debt due in one year	11.3%	16.0%	4.8%	2.9%	2.3%	2.2%
Interest Rate Risk						
% of debt that refixes rate in one year	32%	34%	22%	18%	20%	20%
Average Time to Refix (years)	4.9	6.6	11.1	12.3	11.8	10,7
Duration (years)	5,6	8.0	8.9	10.4	9.8	9.4
% of debt with Fixed Rate	77%	78%	82%	83%	81%	76%
% of debt with Floating Rate	23%	22%	18%	17%	19%	24%
Foreign Currency Risk						
% of debt in Units linked to CPI	11%	11%	15%	26%	28%	28%
% of debt in Dollars	62%	64%	77%	65%	64%	65%
% of debt in Other Currencies	26%	25%	8%	9%	8%	7%
Composition of Debt by Instruments						
Loans	44%	40%	0%	17%	19%	24%
Bonds	56%	60%	0%	83%	81%	76%
Composition of Debt by Jurisdiction						
Local Market	22%	22%	23%	21%	16%	15%
External Market	78%	78%	77%	79%	84%	85%
Average Interest Rate (annual % by currency)						
Dollars	6.1	7.8	7.0	7.1	7.0	6.5
Units linked to CPI	7.1	5.4	5.3	4.4	3.7	3.4
Euros	6.9	6.9	6.9	6.9	6.9	6.9
Yens	2.5	2.5	2.5	2.3	2.3	2.3





Central Government Flow of Funds

	2009	2010
USES	**1284**	**1567**
Interests Payments	860	901
Amortizations	348	615
Loans	222	225
Bonds	135	390
Others	**76**	**51**
SOURCES	**1284**	**1567**
Primary Suprlus	280	300
Multilaterals Disbursements	960	700
Local Market Issuances	120	250
Others	40	0
Use of Assets*	-116	317

In Million USD

***Positive indicates a reduction in reserves**

Source: Debt Management Unit of the Ministry Economy and Finance

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